



The Florida Senate

Interim Project Report 2000-66

September 1999

Committee on Regulated Industries

Senator Tom Lee, Chairman

TELECOMMUNICATIONS

SUMMARY

"Universal service" is the concept that everyone should have affordable access to basic telephone service. State and federal regulators have significant responsibilities in ensuring that universal service goals are met. Florida's interim universal service mechanism may not be adequate to meet the needs of a dynamic and evolving telecommunications market. As competition develops, traditional methods for subsidizing basic local service rates will be insufficient. Furthermore, by setting the course for a permanent funding mechanism without delay, the Legislature can advance universal service goals, protect Florida's customers and ensure a fair and stable marketplace for businesses.

The Florida Telecommunications Industry Association's meetings this summer regarding a unified telecommunications tax should be closely examined by the Legislature. The rapidly changing market challenges the viability of the current taxation framework. In order to encourage business development in all sectors of the telecommunications industry, it may be time to move toward a simpler framework that recognizes change and ensures equal-footing for all technologies.

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high-cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

47 U.S.C. 254(b)(3).

A system of implicit and explicit subsidies

In the monopoly environment, the telephone became an affordable link to the outside world for most citizens. Phone companies were obliged to serve all customers, even when costs exceeded revenues. On average, however, the companies were guaranteed a fair rate of return. The concept of universal service funding first arose after the divestiture of AT&T, as a potential source of funds that could be used to ensure the continued availability of telephone service for low-income customers and customers in high-cost areas. The idea is to have all providers contribute to a fund that can be tapped by telecommunications companies to recover their costs of serving high-cost and low-income customers.

Universal service goals in the United States, at both the federal and state level, historically have been met by a combination of implicit and explicit subsidies. However, as the FCC has realized, the use of implicit subsidies must be re-examined as market controls are relaxed. Therefore, the FCC has embarked on course to replace implicit subsidies with "specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service." 47 U.S.C. Section 254(b)(5). Many states, too, are recognizing the need to replace the implicit subsidy laden status quo with a new model.

Florida's "Interim Mechanism"

In 1995, the Florida Legislature was concerned that universal service be sustained in the competitive environment. Therefore, it established an interim

BACKGROUND

Universal Service Defined

The concept of universal service has existed since the passage of the Communications Act of 1934 (1934 Act). The stated purpose of the 1934 Act was to

make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges.

47 U.S.C. 151. Universal service goals are no less important today. In 1996 they were resolutely reiterated in the Telecommunications Act of 1996 (Federal Act). The Federal Act directed the FCC and the states to ensure that:

period, during which incumbent companies were required to remain as carriers of last resort in their service areas, and it provided for an “interim mechanism” for funding universal service support goals. Although the law stated that the interim mechanism would be applied in a manner that ensured that all providers contributed a fair share to the support of universal service, in fact, the incumbent companies bear almost the entire load of serving high-cost customers and pay the full state share of Lifeline support for low-income customers. Despite this lop-sided burden, any local exchange company can petition the Florida Public Service Commission to change the interim mechanism if warranted by a change in circumstances. See s. 364.025(3), F.S. To date, no local exchange company has availed itself of this relief.

The interim mechanism represents the perpetuation of implicit subsidies. The implicit subsidies that support universal service goals come from above-cost prices for access charges, and vertical services like call waiting and caller identification, and business services. The incumbent local exchange companies keep prices for these services high in order to subsidize below-cost rates for basic local telephone service. As competitors enter the market, the imbalance in retail rates enables “cherry-picking,” whereby alternative local exchange companies are able to lure the incumbents’ profitable customers away. Therefore, the incumbent companies are losing the very customers who are generating the profits to implicitly subsidize the cost of serving high-cost and low-income customers. The interim mechanism for supporting universal service and carrier of last resort obligations cannot be sustained as competition emerges.

CS for Senate Bill 1008: A New Model

The Senate Committee on Regulated Industries introduced a bill during the 1998 session that was designed to provide for implementation of a permanent universal service funding mechanism. Although the bill was not enacted, it provided an important framework for the Senate’s further consideration of universal service issues.

Perhaps most importantly, CS/SB 1008 prohibited an increase in basic local telecommunications rates and disallowed local exchange telecommunications companies from recovering universal service fund contributions through an explicit end-user or line-item surcharge. The bill also required the Florida Public Service Commission to recommend to the Legislature, by February 15, 2000, what the Commission determined to be a specific, predictable, and sufficient

mechanism for providing universal service. The industry generally supported this portion of the bill. Under the Senate bill, the Florida Public Service Commission would have been instructed to consider and make findings regarding:

- C the requirements of the federal Telecommunications Act of 1996 and any universal service support mechanism established by the Federal Communications Commission;
- C whether the universal service support mechanism shall be based upon the costs determined by the Florida Public Service Commission in Docket No. 980696-TP and whether the cost determination shall be updated;
- C whether there shall be a revenue benchmark and how such a revenue benchmark shall be defined;
- C whether the low-income support amount shall be determined by multiplying the number of customers subscribing to Lifeline service by the intrastate matching fund by twelve;
- C the manner in which each telecommunications company shall be assessed its share of the universal service support;
- C whether, and to what extent, special provisions shall be included in a mechanism that address the service areas, market conditions, information resources and other circumstances of small local exchange companies serving fewer than 100,000 access lines;
- C the manner in which the local exchange telecommunications company’s non-basic service prices and access charges should be changed to reflect any explicit universal service support;
- C how any explicit universal service mechanism shall be administered and how any third-party administrator shall be selected;
- C how a telecommunications company shall qualify to receive any explicit universal service support; and,
- C whether the status of competition based upon the directives developed by the FCC to open the local market to competition, which include interconnection, network access and resale, expedites the need for the universal service fund.

Under the bill, the Florida Public Service Commission was encouraged to recommend other factors as the Commission deemed essential to a full and fair recommendation. The bill, and specifically its enumerated factors, started a constructive dialogue regarding the necessity and parameters of a permanent universal service mechanism.

HB 2123: An Extension

Instead of CS/SB 1008, the Legislature enacted House Bill 2123. This bill extended until January 1, 2001, a local exchange telecommunications company's carrier-of-last-resort responsibility to furnish basic local exchange telecommunications service within a reasonable time period to any person requesting such service within the company's service area. Likewise, the interim universal service mechanism and the deadline for establishing a permanent universal service fund were extended until January 1, 2001. However, HB 2123 provides no plan or framework for implementing a permanent universal service mechanism.

Telecommunications Taxation: Toward a More Responsive Framework

A related element of this interim project study involves monitoring discussions and activities related to modifying the telecommunications taxation framework. The convergence of three industry trends—technological advances, large mergers and bundled services—strain the current framework. Competing technologies are not being taxed the same. Some technologies enjoy an exemption from sales tax, others are exempted from the gross receipts tax or the municipal utility tax, and some technologies are exempted from the franchise fees that cable and wireline businesses pay. Unless all telecommunications services are taxed equally, then some service providers may have a competitive advantage and grow at the expense of other members of the industry and the state and local revenue tax base.

METHODOLOGY

This Interim Project Study involved monitoring Florida Public Service Commission hearings, workshops, and other meetings to keep abreast of the Commission's work on telecommunications issues; researching issues related to the implementation of a permanent universal service funding mechanism, including, but not limited to, a review of the programs being developed in other states; interviewing industry participants and consumer advocacy groups; and monitoring industry discussions regarding telecommunications taxation issues.

FINDINGS

Funding Mechanisms Used by Other States

Last year, the National Regulatory Research Institute published "State Universal Service Funding and Policy: An Overview and Survey." The report noted that state commissions have taken a variety of approaches to support universal service.

Many state commissions have adopted or are evaluating cost models to determine the level of universal service support required in a state. The models differ in a number of respects, including network architecture, customer location assumptions, and the prices of various labor and capital inputs.

Edwin A. Rosenberg, John D. Wilhelm, "State Universal Service and Policy: An Overview and Survey," The National Regulatory Research Institute, vi (1998).

Moreover, states selectively are funding a variety of "universal service" programs including, high cost, rate rebalancing, emergency 911, telecommunications relay service, Lifeline, Link-up, state support for schools, libraries and health care facilities, and special telecommunications equipment for people with disabilities. Many states, too, are reluctant to act prior to the implementation of the FCC's interstate mechanism as the goal is to have the intrastate and interstate models complement each other.

It is difficult to identify one state model that may work for Florida. Nevertheless, Florida can glean valuable information from the steps taken in other states. A good source of information regarding state universal service funding mechanisms is the National Exchange Carrier Association (NECA). NECA acts as an independent third-party administrator for 8 state universal service funds (Vermont, Kansas, Arizona, Wyoming, Arkansas, Oklahoma, Texas, and Nebraska). As an administrator, NECA collects revenues from telecommunications providers obligated to contribute under state rules and disburses funds to state-designated recipients. Despite inherent differences in each state fund, important information can be derived from NECA's experience in various regions of the country. In a presentation to the Florida Public Service Commission entitled "NECA State Fund Management and Administration" on June 28, 1999, NECA provided the following implementation advice:

- C Broad industry participation during fund rulemaking and establishment phases lessens confusion and resistance during implementation.
- C A single collection mechanism for various universal service goals simplifies processes and creates cost efficiencies.
- C Assessment based on percent of revenues, applied to all service providers (not end-user customers), ensures contributions are collected in a non-discriminatory, competitively neutral manner.

- C Assessment of “retail” intrastate-only revenues avoids double assessing.
- C Payment-after-collection methodology reduces cash flow fluctuations and decreases the possibility of a fund shortfall.
- C Monthly billing and collection and establishment of a *de minimus* threshold to exempt small contributors from assessments or require less frequent payments offers administrative simplicity and reduces cost.

Public Input

Senator Tom Lee, Chairman of the Senate Committee on Regulated Industries, sent a letter to representatives of the telecommunications industry, the Attorney General, the American Association of Retired Persons (AARP), and the Florida Public Service Commission staff. The letter solicited input on how best to implement a permanent universal service fund for Florida without increasing the amount customers pay for basic local service or other telecommunications services. Many of these representatives responded to Senator Lee’s request and those responses are summarized below.

The Incumbent Local Exchange Companies

BellSouth endorses the notion that a universal service funding mechanism must be specific, predictable and sufficient and must operate in a competitively neutral manner. BellSouth believes that “universal service support is essential to the continued availability of basic local telecommunications services for Florida consumers in high-cost areas, as well as low-income customers.” BellSouth also cited two recent developments in federal telecommunications policy that may have a bearing on Florida’s universal service funding policy. Specifically, BellSouth referenced a recent decision by the U.S. Fifth Circuit Court of Appeals. The opinion issued by the Fifth Circuit states that “[w]e are convinced that the plain language of Section 254(e) (of the Telecommunications Act) does not permit the FCC to maintain *any* implicit subsidies for universal service support.” (Emphasis in original). BellSouth also referenced a proposal by a coalition of incumbent local exchange companies and interexchange carriers to reform access charges by removing all implicit support from interstate switched access charges and increasing the federal subscriber line charge to a maximum of \$7 per line per month. One facilitator of the plan explained that the plan “will mean better prospects for competition and choice in all markets, simplified phone bills for everyone, reduced long-distance bills and a sounder basis to assure guaranteed universal service at reason-

able, affordable prices to all Americans” See *BST Briefing*, Volume 7, No. 183, August 3, 1999. Because of these developments, BellSouth recommends that it may be premature to outline the parameters of a Florida fund before the federal questions are resolved.

BellSouth did provide, however, a list of key principles it believes should be included in a discussion of a universal service support mechanism for Florida:

- C The universal service support mechanism will be established by Legislature for implementation by the Florida Public Service Commission by a date certain.
- C Universal service support will apply to basic local telecommunications service as defined in Section 364.02(2).
- C Incumbent local exchange companies will remain the carrier of last resort until a date certain or until an alternative local exchange company is authorized to be the carrier of last resort, whichever first occurs.
- C An alternative local exchange company may apply to be the carrier of last resort beginning whenever the universal service support mechanism becomes effective.
- C All providers of telecommunications services will contribute to universal service support based on each provider’s share of total intrastate, net end-user telecommunications revenues generated in an incumbent’s service area.
- C Universal service support will apply to low income-customers and customers in high-cost areas.
- C Eligible alternative local exchange companies will receive high cost universal service support so long as the company is the facility provider, and offers a stand-alone residential basic local telecommunications service that replicates and is not priced higher than the incumbent’s residential basic local telecommunications service.
- C To the extent an incumbent receives high cost universal service support in excess of contributions, the incumbent will reduce service rates that contain implicit support in a revenue neutral manner.
- C To the extent that an incumbent contributes to the high cost universal service support in excess of received support, the incumbent will make changes to its service rates to recover the difference.
- C Universal service support mechanism will be administered by a third-party administrator, to be selected and directed by the Florida Public Service Commission.

Sprint likewise endorses the concepts of specificity, predictability, sufficiency and competitive neutrality. Sprint defined the concepts in an effort to clarify its position. Sprint understands “specificity” to mean that the universal service fund must be explicit; “predictability” is important because of capital intensive investments; “sufficiency” is understood as a limiting factor, the universal service fund should be no larger than absolutely necessary to sustain universal service; “competitive neutrality” involves two questions, (1) is the means of cost recovery for contributions to a universal service funding neutral among industry segments and (2) is the universal service funding mechanism competitively neutral as to which companies are eligible to receive universal service support. Sprint stated that any criteria that would prohibit the recovery of universal service fund contributions through a line-item or end-user surcharge would be contrary to the creation of an explicit fund and potentially contrary to the concept of revenue neutrality. Sprint expressed general agreement as to the 10 factors enumerated in CS/SB 1008 for the Florida Public Service Commission’s consideration.

GTE agrees that “a permanent, explicit, competitively neutral universal service fund is necessary to achieve the dual goals of promoting efficient competition while preserving universal service. GTE maintains that an efficient and fair universal service policy must first address the disparity between costs and rates for basic local exchange telecommunications service. GTE proposes:

- C to take all of today’s implicit supports and make them explicit, and
- C to collect these explicit supports via a competitively neutral surcharge and to make universal service support portable to all qualifying competitors.

Therefore, GTE stated that it agreed with the first guiding principle set out in Senator Lee’s letter but disagreed with the second, because it believed that any support amounts should be explicitly recovered from customers. GTE, as the other responding incumbent local exchange companies, cited the recent Fifth Circuit decision in support for its call of an explicit support structure.

Small Local Exchange Companies

In the joint response of ALLTEL, GT COM, Northeast Florida Telephone Company, Inc., TDS, and Vista-United Telecommunications, the small local exchange companies (serving fewer than 100,000 access lines each) state that “adequate funding to support universal

service has been and continues to be a priority for the small LECs.” The small LECs believe that a universal service fund is necessary to maintain comparable phone service for customers in rural, insular, and high-cost areas. They continue to believe that some level of rate rebalancing is necessary to creating a fair fund. However, they are willing to work toward a different solution if the Committee remains steadfast in its opposition to rate rebalancing proposals. The small LECs support consideration of the 10 factors set out in CS/SB 1008.

The Alternative Local Exchange Companies

The Florida Cable Telecommunications Association (FCTA), representing Florida’s franchised cable television operators, nearly all of whom also have subsidiaries that are certificated as alternative local exchange companies, maintains that given the lack of competition in the local market, the establishment of a fund is premature. It states that “[t]here is no evidence that the current local exchange companies or their customers are suffering any harm under the current requirements where the local exchange companies serve as the carrier of last resort and provide basic local telecommunications services under the current price cap regulatory scheme.” FCTA further points out that, to date, no incumbent company has availed itself of the relief measures that exist under current law. FCTA argues that this fact demonstrates the incumbents’ ability to continue to provide universal service absent any detrimental effect. Finally, FCTA states that the creation of a universal service funding mechanism prematurely would operate as a disincentive for competitive growth by operating as a “fund shift” from new entrants to the incumbents.

Time Warner concurs with FCTA, amplifying the comment that there is no evidence that any incumbent company or its customers is suffering harm because of carrier-of-last-resort responsibilities. Time Warner further states that, if a fund is created, it should be as small as possible, and be limited to basic service and not expanded to include data, enhanced or Internet service offerings.

The Interexchange Carriers

AT&T states that it supports the fundamental concept of universal service. However, AT&T believes that universal service goals currently are being met in Florida. AT&T also points to the lack of competition in the local telephone market as evidence that a permanent universal service funding mechanism is premature. In an effort to facilitate further discussions on the issue, AT&T offers the following bullet points for further

analysis and discussion:

- C Any additional revenues to the incumbent local exchange companies should be revenue neutral.
- C In order to avoid hidden taxes, telecommunications companies should not be prohibited from recovering universal service fund contributions through an explicit end-user or line-item surcharge.

MCI/Worldcom states that it fully supports the concept of universal service. However, due to uncertainty at the federal level, MCI/Worldcom believes that state action on universal service may be premature and potentially disruptive. Nevertheless, MCI/Worldcom expresses its support for an explicit, competitively neutral universal service mechanism when one is ripe for consideration. In the meantime, it believes the current interim mechanism is sufficient to meet the needs of the industry and Florida's customers and it urges the Legislature to further extend the interim mechanism for another two-year period. In that time, MCI/Worldcom suggests that the Florida Public Service Commission could review the issues and make specific proposals. In the event that the Legislature elects to move forward with a proposal, it suggests the inclusion of the following principles:

- C Effective local competition must be shown.
- C Any plan must be reviewed on a periodic basis and capped.
- C All companies must be allowed to recover this funding from customers (no line-item restrictions).
- C The emphasis should be on Lifeline funding, instead of high-cost support.

Florida's Attorney General

Attorney General Robert Butterworth expresses his agreement with the principles set out in CS/SB 1008 during last year's legislative session. He remains committed to ensuring affordable phone service for all Floridians. However, he opposes the notion that rates must be "rebalanced" or that basic rates must be increased as a precursor to a serious move toward the implementation of a permanent universal service funding mechanism. General Butterworth points to the high rates of return currently being enjoyed by the telecommunications industry in support of the premise that universal service goals may be met without resort to increased prices.

Because the Attorney General's office is charged with monitoring market fairness and competition, General Butterworth is particularly sensitive to the effect that "flash-cut" economic policies may have. Therefore, his

office has urged early implementation of a permanent mechanism that will ensure continued affordability for all of Florida's citizens, maintain a fair and stable market, and avoid the need for rate rebalancing.

The American Association of Retired Persons

Likewise, the American Association of Retired Persons (AARP) strongly opposes any attempt by the phone companies to raise rates for basic local service last year. AARP is focused on ensuring that its members, and Florida's citizens generally, continue to be able to afford phone service. AARP believes that universal service goals may be met without exposing its members, many of whom live on fixed-incomes, to potentially devastating rate increases.

Florida Public Service Commission Staff

Noting that universal service policy is fundamentally an issue of availability and affordability, staff for the Florida Public Service Commission elaborated on these concepts in an effort to set the groundwork for a considered analysis of the need for a permanent universal service funding mechanism. Commission staff believes that local service availability is not in serious jeopardy despite the impending expiration of state carrier of last resort laws. As to affordability, staff posited that the needs of both low-income households and those who live in areas that are costly to serve need to be considered. In its February 1999 report on universal service issues, the Florida Public Service Commission concluded that neither a low-income intrastate Lifeline universal service fund, nor a high-cost universal service fund, should be implemented yet. However, recognizing that the Legislature may determine that the creation of a permanent universal service funding mechanism is necessary sooner rather than later, the Commission staff offered the following specific implementation recommendations:

- C Any universal funding should be portable and competitively and technologically neutral. In the case of intrastate funding for Lifeline, any eligible telecommunications carrier should be able to receive monies for serving Lifeline customers. For intrastate high-cost funding, available support should be stated on a per line basis and given to whomever provides the actual facility serving the customers.
- C High-cost funding should be provided only to single-line residential and business customers.
- C The cost standard for determining high-cost funding should be the forward-looking economic cost as derived by a cost proxy model.

- C If high-cost funding is to be provided for both small and large local exchange companies, the Florida Public Service Commission would need clarification as to which cost standard (i.e., embedded or forward-looking cost) to use to determine funding for small local exchange companies.
- C High-cost funding should be based on the difference between the relevant cost standard and an affordability benchmark.
- C Any net new high-cost receipts i.e., funds received by an incumbent local exchange company (less assessments) must be offset by reductions to rates for other services.
- C In exchange for a local provider receiving intrastate high-cost funds, the provider should be required to charge basic local ratepayers no greater than a Commission-determined price deemed to be affordable.
- C In order to be eligible for universal service reimbursement from a state fund, a provider should be designated as an eligible telecommunications carrier.
- C As currently allowed by the Florida statutes, all telecommunications carriers and commercial radio service (CMRS) providers should be required to contribute to any intrastate universal fund(s).
- C Assessments to fund an intrastate universal service mechanism should be based on a subject provider's intrastate end user revenues.
- C Any intrastate universal service fund should be administered by a neutral third-party administrator. However, the duties of such administrator should be ministerial in nature, with all policy functions performed by the Florida Public Service Commission.
- C Providers subject to intrastate universal service assessments should be free to recover these assessments as they see fit, as long as they avoid mislabeling or otherwise misrepresenting the nature of any explicit charge put on a customer's bill. (The Commission agrees with the industry regarding the need for explicit rather than implicit funding.) The Commission should be authorized to regulate the nature and format of intrastate charges assessed by telecommunications providers to recover their assessments.

Finally the Florida Public Service Commission staff requests that the Legislature consider granting the Commission authority to: (1) make decisions about when an incumbent can be relieved of its carrier-of-

last-resort obligation; (2) determine when funding mechanisms are warranted; (3) establish such mechanisms if and when the circumstances arise; and (4) determine, after a hearing, the conditions or circumstances that may trigger the need for high-cost universal service funding.

Taxation of Telecommunications Services

The Florida Telecommunications Industry Association (FTIA) has held meetings throughout the summer in an effort to streamline the current telecommunications taxation system. This effort began in May of 1996 when Governor Chiles created the Florida Telecommunications Tax Force. The Task Force reported to the Governor on:

- C changes in communications technology and services,
- C state and federal regulatory changes in communications technology and services,
- C the effect of a favorable tax climate upon the development and promotion of communications technology and services, and businesses,
- C the compliance with tax requirements and costs of administration,
- C the competitive environment in taxing instate versus out-of state providers of communications technology and services, and,
- C state and local government tax revenues generated from the taxation of communications technology and services.

The Task Force made its report in February of 1997. After setting out the issues involved in an overhaul of the telecommunications taxation framework in Florida, the Task Force recommended to the Governor and the Legislature:

- C A unified or "flat" tax should replace the (1) state sales and use tax, (2) state gross receipts tax, (3) municipal utility tax, (4) local option sales tax, and (5) local franchise fees.
- C The tax would be described by a single definition, not dependent on technology or method of delivery, encompassing virtually all forms of electronic communications.
- C The unified tax would be administered by the Florida Department of Revenue.
- C Monies from the tax would be divided among the state General revenue fund, the state Public Education Capital Outlay Fund (PECO), and city and county governments.

The Legislature did not enact a flat tax, but interest in it has been renewed by unprecedented growth in the communications industry coupled with the potential for competitive market distortions and lost government revenues.

FTIA has built on the task force recommendations and recently submitted comprehensive responses to the House Committee on Utilities and Communications' request for information on the development of a unified tax. In its written response, FTIA identifies several problems with how telecommunications services currently are taxed. Foremost, FTIA points to an outdated regulatory scheme that fails to address emerging telecommunication technologies. This failure, FTIA asserts, has "[c]reated anomalies and difficulties in the competitive environment." Moreover, the current framework seems unable to efficiently handle the growing trend of "bundled services." FTIA also highlights the compliance burdens caused by hundreds of local taxing jurisdictions.

FTIA argues that a unified tax will:

- C promote competitive neutrality;
- C provide for a broader tax base;
- C resolve the complicated bundled service issues;
- C significantly reduce compliance burdens for telecommunications service providers;
- C be easier for customers to understand; and
- C reduce the number of complaints and questions that businesses are required to handle.

However, FTIA did point out that there still are some significant obstacles that must be overcome. FTIA specifically referenced the following most important challenges:

- C With a single tax replacing four taxes and two fees for multiple jurisdictions and different bases and rates, some customers are likely to suffer an increase over what they are currently paying. This problem can be mitigated by giving credits to residential customers and allowing for rollbacks in other taxes (e.g. ad valorem), but it cannot be totally eliminated.

- C The integrity of state and local government revenue streams must be protected. This means designing a fair distribution system and addressing local government concerns that they could be detrimentally impacted by a future change in the allocation formula.

Notwithstanding these challenges and other important implementation issues, FTIA is confident that customers, local governments, and the telecommunications industry can implement a new taxation framework that will be better for Florida. Staff for the Committee on Regulated Industries will continue to monitor the work of the FTIA and take part in efforts to redesign the telecommunications taxation framework.

RECOMMENDATIONS

Certain segments of the telecommunications industry maintain that a permanent funding mechanism is premature. This position may underestimate the detrimental impact of a fund established hastily at some future date in response to the then severe cumulative effect of gradual market changes. Therefore, the Senate should consider legislation this year to set the course for a permanent universal service mechanism. A mechanism that matures in step with the market will prevent "flash-cut" market distortions.

The Legislature should engage in a robust dialogue with the telecommunications industry, the Florida Public Service Commission, and consumer groups in order to craft a full and fair solution. Also, hearing from a representative of the National Exchange Carriers Association on the development and implementation of universal service funding mechanisms in other states may be instructive.

The Legislature should remain open to proposals for telecommunications tax reform. Many in the state agree that a flat tax would streamline the telecommunications taxation framework, provide tax equity, encourage competition and speed the development of advanced technologies.

COMMITTEE(S) INVOLVED IN REPORT *(Contact first committee for more information.)*

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MEMBER OVERSIGHT

Senators Mandy Dawson, Jack Latvala and Chairman Tom Lee